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REVISITING ISLAMIC ECONOMICS: BETWEEN IDEALISM AND PRACTICAL CHALLENGES

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ABSTRACT

Islamic economics has emerged as a prominent alternative framework to conventional economic systems, particularly in the aftermath of recurring global financial crises that have exposed structural weaknesses in interest-based, speculative, and debt-driven economic models. Rooted in Islamic ethical principles such as justice (ʿadl), welfare (maṣlaḥah), balance (tawāzun), and the prohibition of ribā, gharar, and maysir, Islamic economics aspires to construct an economic order that harmonizes material prosperity with moral responsibility. Despite its rapid institutional expansion especially through Islamic banking, finance, and halal industries significant debates persist regarding the extent to which contemporary practices genuinely reflect the foundational ideals of Islamic economic thought. This article revisits Islamic economics through a conceptual–critical lens, interrogating the growing gap between its normative ideals and practical implementation. Employing a qualitative conceptual analysis and narrative literature review, the study synthesizes classical Islamic economic thought, modern theoretical formulations, and contemporary empirical critiques from both global and Indonesian contexts. The findings reveal three interrelated challenges: the dominance of form-over-substance compliance in Islamic financial institutions, the marginalization of socio-economic justice objectives in favor of market competitiveness, and persistent epistemological tensions arising from the adaptation of conventional economic paradigms. By problematizing these issues, the article contributes to the discourse on Islamic economics by advocating a reorientation toward its ethical–social foundations without neglecting institutional realities. This revisiting is crucial not only for strengthening the academic coherence of Islamic economics but also for enhancing its transformative capacity in addressing real-world economic inequalities and development challenges. The article concludes that Islamic economics must evolve beyond symbolic differentiation toward substantive ethical integration if it is to fulfill its promise as a viable and credible alternative economic paradigm.

INTRODUCTION

Over the past several decades, renewed global attention to Islamic economics has emerged alongside growing dissatisfaction with the prevailing conventional economic paradigm. This resurgence cannot be understood in isolation from the repeated failures and limitations of dominant capitalist systems, which have become increasingly visible through recurrent financial crises, persistent income and wealth inequality, environmental degradation, and ethical lapses within financial and corporate governance structures. These systemic challenges have prompted scholars, policymakers, and practitioners worldwide to reconsider the foundational assumptions of modern economics and to explore alternative frameworks capable of promoting fairness, sustainability, and moral accountability. Within this broader context, Islamic economics has gained prominence as a potential alternative paradigm, offering an economic worldview rooted in Islamic moral philosophy and legal principles that explicitly integrate ethical considerations into economic life (Chapra, 2000; Siddiqi, 2004; Askari et al., 2015).

Unlike mainstream economic thought, which largely prioritizes efficiency, growth, and profit maximization as primary objectives, Islamic economics places ethical norms at the center of economic decision-making. It emphasizes values such as justice (ʿadl), social responsibility, mutual cooperation, and accountability not only to society but also to God. Economic activity is thus conceptualized not as a morally neutral pursuit but as an arena in which ethical choices and social consequences are inseparable from material outcomes. In this sense, Islamic economics presents itself as a normative economic framework that aspires to balance individual incentives with collective welfare, challenging the moral separation often found in conventional economic analysis.

In Indonesia, the world’s largest Muslim-majority country, the development of the sharia economy has assumed growing strategic importance within national economic planning and policy discourse. The Indonesian government has actively promoted various components of the Islamic economic ecosystem, including Islamic banking and finance, halal industries, zakat and waqf management, and sharia-based microfinance, as instruments to foster inclusive and sustainable economic growth. These initiatives are often framed as mechanisms for enhancing financial inclusion, empowering micro and small enterprises, and addressing socio-economic inequality. However, despite sustained policy support and institutional expansion, empirical indicators suggest that the overall contribution of Islamic economic institutions to national economic performance remains relatively modest.

Official statistics and regulatory reports indicate that although the number of Islamic financial institutions in Indonesia has increased over time, their market share remains small in comparison to conventional financial institutions. Islamic banking, in particular, continues to account for only a limited portion of total financial intermediation, raising questions about its effectiveness as a driver of large-scale economic transformation. Moreover, the impact of Islamic economic institutions on poverty alleviation and income redistribution appears constrained, highlighting a gap between normative aspirations and empirical outcomes. This reality invites critical reflection on whether Islamic economics, as currently institutionalized, has succeeded in translating its ethical ideals into tangible socio-economic benefits.

At the theoretical level, Islamic economics is frequently characterized as a normative discipline that seeks to operationalize Islamic ethical teachings within the realm of economic life. Early scholars and pioneers of Islamic economic thought conceptualized it as a comprehensive system encompassing production, distribution, and consumption, all governed by divine guidance and moral principles (Mawdudi, 1970; Chapra, 1979; Mannan, 1986). Central to this vision is the prohibition of ribā (interest) and excessive uncertainty, alongside the promotion of risk-sharing arrangements, real-sector engagement, and social redistribution through instruments such as zakat, waqf, and ṣadaqah. In principle, Islamic economics aims to avoid the extremes of unregulated capitalism, which prioritizes private accumulation, and state-centered socialism, which risks suppressing individual initiative, by offering a balanced framework grounded in ethical moderation.

However, as Islamic economics has evolved from an intellectual project into a set of institutional practices most notably through the rapid expansion of Islamic banking and finance a growing body of critical scholarship has identified significant tensions between theoretical ideals and practical realities. Numerous scholars argue that contemporary Islamic financial practices often replicate conventional financial products with minimal structural changes, relying on legalistic contractual modifications rather than substantive ethical transformation. This phenomenon has been described as producing financial systems that are “sharia-compliant but not sharia-based,” meaning that while formal legal requirements may be satisfied, the deeper ethical and social objectives of Islamic economics are frequently neglected (El-Gamal, 2006; Khan, 2010; Zaman, 2012).

Such critiques suggest that Islamic economics risks becoming a symbolic or procedural exercise focused on contractual form rather than ethical substance. When Islamic finance mirrors conventional finance in its risk allocation, profit orientation, and social outcomes, its claim to represent a genuine alternative paradigm becomes increasingly tenuous. Instead of challenging the structural causes of inequality and financial instability, Islamic economic institutions may inadvertently reinforce existing economic patterns, thereby undermining their transformative potential.

The dominance of Islamic banking and finance within the broader discourse of Islamic economics has further narrowed the scope of the field. While financial intermediation is undeniably a crucial component of any economic system, the original vision of Islamic economics extended far beyond banking and finance. Early Islamic economists emphasized issues such as poverty alleviation, labor justice, equitable distribution of resources, environmental stewardship, and ethical consumption as central concerns. The contemporary overemphasis on finance has marginalized these dimensions, reducing Islamic economics to a technical subset of conventional economics rather than a holistic socio-economic framework (Asutay, 2007; Hasan, 2011; Haneef, 2013).

This trend toward over-financialization is particularly problematic in developing countries, where economic challenges are deeply structural in nature. Persistent poverty, unemployment, and inequality cannot be resolved solely through financial instruments, no matter how well designed. Instead, they require integrated approaches that address education, health, employment, governance, and social protection. By focusing narrowly on financial compliance, Islamic economics risks failing to engage meaningfully with the lived realities of marginalized populations and the structural determinants of deprivation.

Another fundamental challenge confronting Islamic economics lies in its epistemological foundations. Despite its normative ambitions, much of contemporary Islamic economic theory remains heavily influenced by neoclassical economic assumptions, particularly those related to rational choice, utility maximization, and market equilibrium. While methodological borrowing from conventional economics is, to some extent, unavoidable, critics argue that uncritical adoption of these assumptions undermines the distinctiveness of Islamic economics and generates internal contradictions (Siddiqi, 2008; Zaman, 2014; Hallaq, 2015). For instance, the reliance on homo economicus models sits uneasily with Islamic ethical teachings that emphasize moral responsibility, altruism, and social solidarity.

This epistemological tension raises deeper questions about the nature and purpose of Islamic economics as a discipline. Is it intended to be a fundamentally alternative paradigm grounded in Islamic epistemology, or is it merely an ethical modification of existing economic theories? Without a clear resolution of this question, Islamic economics risks remaining conceptually ambiguous, oscillating between critique and accommodation without fully committing to either.

From a practical standpoint, the promise of Islamic economics to deliver social justice and inclusive development remains largely unrealized. Many Muslim-majority countries, including Indonesia, continue to face persistent socio-economic challenges despite decades of institutional development in Islamic finance and philanthropy. Although instruments such as zakat and waqf possess significant potential for redistribution and social investment, their integration into national development strategies is often fragmented, poorly coordinated, and underutilized. Institutional weaknesses, governance challenges, and regulatory fragmentation further limit their effectiveness. This persistent gap between theoretical promise and empirical performance underscores the need for critical reassessment rather than uncritical celebration of Islamic economic achievements.

Against this backdrop, revisiting Islamic economics emerges as both a timely and necessary endeavor. Rather than questioning its legitimacy or dismissing its relevance, this article seeks to engage critically with Islamic economics as an evolving intellectual and practical project situated between lofty ideals and complex realities. By adopting a conceptual–critical approach, the study moves beyond apologetic narratives that seek to defend Islamic economics at all costs. Instead, it interrogates the structural, institutional, and epistemological factors that shape contemporary Islamic economic practice and constrain its transformative potential.

Such critical engagement is essential for strengthening the intellectual credibility of Islamic economics and enhancing its capacity to address real-world economic problems. Without sustained self-reflection and openness to reform, Islamic economics risks stagnation and irrelevance, particularly in an increasingly complex global economic environment marked by technological change, environmental crises, and shifting social expectations.

This article contributes to the existing literature in three principal ways. First, it synthesizes diverse strands of Islamic economic thought classical, modern, and critical into a coherent analytical narrative that highlights both continuities and tensions within the field. Second, it explicitly addresses the disjuncture between normative ideals and institutional realities, drawing on theoretical arguments and contextual evidence from developing economies to illustrate this gap. Third, it proposes a reframing of Islamic economics that emphasizes ethical substance, social objectives, and contextual relevance while remaining attentive to practical constraints and institutional limitations.

By positioning Islamic economics not as a finished or flawless system but as a dynamic intellectual project requiring continuous reflection, adaptation, and reform, this article seeks to contribute to a more mature and self-critical discourse. Ultimately, the central argument advanced here is that the future relevance of Islamic economics depends on its ability to move beyond formalistic compliance and reclaim its transformative ethical vision. Without such a shift, Islamic economics risks losing its distinctiveness and becoming indistinguishable from the very systems it seeks to critique.

Revisiting Islamic economics, therefore, is not an exercise in nostalgia or ideological defense. Rather, it is a critical endeavor aimed at aligning ethical ideals with institutional realities, ensuring that Islamic economics remains a meaningful and credible framework for addressing the pressing economic challenges of the contemporary world.

METHOD RESEARCH

Research Method

This article employs a qualitative research design grounded in conceptual analysis and narrative literature review to critically revisit Islamic economics as an intellectual and practical project situated between normative idealism and real-world challenges. Given the non-empirical nature of the study and the absence of primary data collection, the methodological approach is deliberately chosen to allow deep theoretical engagement, critical interpretation, and integrative synthesis of existing scholarly works. Such an approach is widely recognized as appropriate for studies aiming to reassess theoretical foundations, clarify conceptual ambiguities, and generate critical insights within the social sciences and humanities (Grant & Booth, 2009; Snyder, 2019; Jesson et al., 2011).

Research Design and Rationale

The study adopts a qualitative conceptual–critical design rather than a systematic quantitative review or meta-analysis. This choice is informed by the nature of Islamic economics as a value-laden and normatively driven discipline, where many of the central debates concern ethical objectives, epistemological assumptions, and interpretive frameworks rather than measurable causal relationships. Conceptual research allows scholars to interrogate underlying assumptions, trace intellectual trajectories, and evaluate coherence between theory and practice (Xin et al., 2013; Gilson & Goldberg, 2015). In the context of Islamic economics, this is particularly relevant, as the discipline is characterized by ongoing debates regarding its identity, methodological orientation, and relationship with conventional economics.

A narrative literature review is employed as the primary methodological tool. Unlike systematic reviews that prioritize exhaustiveness and replicability, narrative reviews emphasize interpretive depth, thematic organization, and critical engagement with selected bodies of literature (Green et al., 2006; Ferrari, 2015). This approach enables the integration of classical Islamic economic thought, modern formulations, and contemporary critical perspectives into a coherent analytical narrative. It is especially suitable for revisiting broad and contested fields such as Islamic economics, where the objective is not to test hypotheses but to reassess conceptual coherence and practical relevance.

Literature Identification and Selection

The literature reviewed in this study consists of peer-reviewed journal articles, scholarly books, and authoritative institutional reports relevant to Islamic economics and its practical implementation. Sources were identified through targeted searches in major academic databases, including Scopus-indexed journals, Web of Science, Google Scholar, and reputable publishers specializing in Islamic economics and finance. Key search terms included combinations of "Islamic economics," "Islamic economic thought," "Islamic finance critique," "sharia economy," "normative economics," and "Islamic political economy."

Selection criteria were guided by three main considerations. First, theoretical relevance: priority was given to works that explicitly address the foundations, objectives, and methodological issues of Islamic economics (e.g., Chapra, Siddiqi, Mannan, Asutay). Second, critical engagement: studies offering critiques of contemporary Islamic economic practices particularly Islamic finance were deliberately included to balance normative perspectives with empirical and analytical concerns (El-Gamal, 2006; Khan, 2010; Zaman, 2012). Third, contextual relevance: literature discussing the application of Islamic economics in developing and Muslim-majority countries, including Indonesia, was incorporated to ground the analysis in real-world institutional settings.

The review does not claim to be exhaustive. Instead, it follows the principle of theoretical saturation, whereby sources are selected until major conceptual themes and debates are sufficiently represented (Saunders et al., 2018). This selective yet systematic approach ensures analytical rigor while allowing flexibility in engaging with diverse intellectual traditions within Islamic economics.

Analytical Framework

The analysis is structured around a qualitative conceptual framework that distinguishes between normative ideals and practical realities in Islamic economics. Normative ideals refer to the ethical objectives and principles derived from Islamic teachings, such as justice (ʿadl), welfare (maṣlaḥah), equity, and social responsibility. Practical realities, by contrast, encompass institutional arrangements, regulatory frameworks, market dynamics, and behavioral patterns that shape the implementation of Islamic economics in contemporary settings.

Using this framework, the literature is analyzed thematically rather than chronologically. Thematic analysis allows the identification of recurring patterns, tensions, and contradictions across different strands of scholarship (Braun & Clarke, 2006; Nowell et al., 2017). Key themes include: (1) the ethical foundations of Islamic economics, (2) the institutional dominance of Islamic finance, (3) critiques of form-over-substance compliance, (4) epistemological tensions with neoclassical economics, and (5) implications for socio-economic justice and development. By organizing the discussion around these themes, the study highlights both convergences and divergences within the literature.

Critical analysis is applied throughout the review. Rather than treating existing works as neutral or definitive, the study evaluates their underlying assumptions, methodological choices, and normative implications. This critical stance aligns with calls for reflexivity in Islamic economics scholarship, which emphasize the need to move beyond doctrinal repetition toward analytical rigor and intellectual openness (Siddiqi, 2008; Asutay, 2012; Zaman, 2014).

Use of Secondary Data and Contextual Evidence

Although the study does not employ primary empirical data, it incorporates secondary data from authoritative institutional sources to contextualize the conceptual discussion. Reports and statistics from national and international institutions such as central banks, financial regulatory authorities, and development agencies are used to illustrate practical challenges faced by Islamic economic institutions. These data are not analyzed statistically but are employed descriptively to support critical arguments regarding limited market share, institutional constraints, and developmental impact.

The use of secondary data in conceptual research is consistent with qualitative methodologies that seek to link theory with observable phenomena without engaging in formal hypothesis testing (Bowen, 2009; Johnston, 2017). By situating theoretical debates within empirical contexts, the study avoids abstract idealism and reinforces the relevance of its critical insights.

Validity, Rigor, and Limitations

Ensuring rigor in qualitative conceptual research requires transparency in literature selection, clarity of analytical criteria, and coherence in argumentation. This study addresses these concerns by explicitly outlining its methodological choices and by grounding interpretations in well-established scholarly debates. Triangulation is achieved through engagement with diverse sources representing normative, mainstream, and critical perspectives within Islamic economics.

Nevertheless, the study acknowledges several limitations. First, the reliance on secondary literature means that the analysis is constrained by the scope and quality of existing scholarship. Second, the narrative review approach involves interpretive judgment, which may introduce subjectivity. However, such subjectivity is inherent to conceptual research and is mitigated through systematic engagement with multiple viewpoints. Finally, the absence of primary empirical analysis limits the ability to assess causal relationships, though this limitation is consistent with the study's conceptual objectives.

Ethical Considerations

As a non-empirical study based entirely on publicly available sources, this research does not raise ethical concerns related to human subjects or data privacy. Ethical responsibility in this context pertains primarily to scholarly integrity, accurate representation of sources, and avoidance of misinterpretation. All referenced works are cited appropriately to ensure intellectual transparency and academic accountability.

In sum, the qualitative conceptual and narrative review methodology adopted in this study provides a robust foundation for critically revisiting Islamic economics. By integrating normative theory, critical scholarship, and contextual evidence, the method enables a nuanced examination of the tensions between idealism and practical challenges, setting the stage for the subsequent results and discussion section.

RESULT AND DISCUSSION

This section presents and discusses the main conceptual findings derived from the narrative literature review and qualitative conceptual analysis. Rather than reporting empirical "results" in a statistical sense, the discussion synthesizes dominant themes, tensions, and critical insights emerging from the reviewed literature. The analysis is organized around the central argument of this article: that contemporary Islamic economics exists in a state of tension between its normative–ethical ideals and the practical challenges of institutionalization within modern economic systems. The results are discussed thematically to illuminate how this tension manifests at theoretical, institutional, and socio-economic levels.

Normative Foundations of Islamic Economics: Ideals and Aspirations

The existing body of literature consistently characterizes Islamic economics as a fundamentally normative discipline that is deeply grounded in Islamic moral and ethical teachings. Both classical and contemporary scholars conceptualize Islamic economics not merely as a technical system for allocating scarce resources, but as a value-oriented framework that seeks to align economic activity with higher moral objectives. Central to this framework are principles such as justice (ʿadl), collective welfare (maṣlaḥah), equilibrium and moderation (tawāzun), and holistic human well-being (falāḥ), which together form the ethical foundation of Islamic economic thought (Chapra, 1979; Mannan, 1986; Siddiqi, 2004). In contrast to conventional economic theories that often present themselves as value-neutral or morally detached, Islamic economics explicitly recognizes that values inevitably shape economic behavior, institutional arrangements, and policy outcomes.

One of the primary normative aspirations of Islamic economics is the establishment of socio-economic justice through a more equitable distribution of wealth, resources, and opportunities. The literature emphasizes that Islamic economic instruments such as zakat, waqf, and the prohibition of ribā are not intended solely as legal or doctrinal prescriptions. Rather, they are designed as ethical mechanisms aimed at preventing exploitation, excessive concentration of wealth, and systemic inequality within society (Kahf, 1999; Chapra, 2000; Islahi, 2014). By mandating redistribution and discouraging unproductive accumulation, these instruments seek to ensure that economic growth translates into broader social benefit rather than reinforcing existing disparities.

An important ethical principle underlying Islamic economics is the preference for risk-sharing arrangements over risk-transfer mechanisms. This emphasis reflects a normative commitment to fairness, mutual responsibility, and solidarity among economic actors. Instead of placing the burden of uncertainty disproportionately on one party, Islamic economic transactions are ideally structured to distribute risks and rewards more evenly. In theory, this approach not only enhances fairness in individual transactions but also contributes to greater systemic stability by discouraging speculative behavior and financial excess. Consequently, the literature often presents Islamic economics as a potentially transformative framework capable of addressing structural poverty, social exclusion, and financial instability at their roots.

Despite these ambitious ethical objectives, the literature also highlights a significant gap between normative ideals and practical implementation. While the foundational goals of Islamic economics are articulated with clarity and moral conviction, critics argue that these aspirations frequently remain at a highly abstract level. The translation of ethical principles into concrete policy prescriptions, institutional designs, and operational guidelines has proven to be a persistent challenge (Hasan, 2011; Haneef, 2013; Zaman, 2012). As a result, practitioners and policymakers often struggle to move beyond general statements of intent toward actionable strategies that can meaningfully transform economic structures.

This disconnect between ethical aspiration and practical guidance represents one of the earliest and most enduring tensions within the discipline of Islamic economics. On the one hand, its strong normative foundation provides a compelling moral vision and distinguishes it clearly from conventional economic paradigms. On the other hand, the lack of well-developed operational frameworks risks limiting its influence on real-world economic policy and institutional practice. Addressing this tension remains a critical task for scholars seeking to advance Islamic economics as both a morally grounded and practically relevant field of study.

Institutional Dominance of Islamic Finance

One of the most prominent findings from the literature is the disproportionate dominance of Islamic finance particularly Islamic banking within the broader field of Islamic economics. Since the late twentieth century, Islamic banking has become the most visible and institutionalized manifestation of Islamic economics globally (Iqbal & Mirakhor, 2011;

Askari et al., 2015). As a result, Islamic economics is frequently equated, both academically and publicly, with Islamic financial products and institutions.

While the growth of Islamic finance demonstrates the practical viability of sharia-based institutions within modern financial systems, scholars caution that this financial-centric focus has narrowed the intellectual scope of Islamic economics. Asutay (2007) characterizes this phenomenon as a shift from “Islamic moral economy” to “Islamic finance,” where efficiency, competitiveness, and profitability increasingly overshadow ethical and social objectives. This over-financialization risks reducing Islamic economics to a technical subset of conventional finance rather than a comprehensive socio-economic paradigm.

The literature further highlights that sectors central to the original vision of Islamic economics such as labor relations, environmental ethics, public finance, and consumption ethics remain underexplored and under-institutionalized (Kamla & Rammal, 2013; Haneef & Furqani, 2017). Consequently, the transformative promise of Islamic economics is constrained by its limited engagement with non-financial dimensions of economic life.

Form over Substance: Sharia Compliance versus Sharia Objectives

A recurring and prominent observation in the literature is the overwhelming dominance of Islamic finance particularly Islamic banking within the broader discourse and institutional practice of Islamic economics. Since the late twentieth century, Islamic banking has emerged as the most visible, rapidly expanding, and formally institutionalized expression of Islamic economic principles at the global level (Iqbal & Mirakhor, 2011; Askari et al., 2015). This development has led to a widespread tendency, both within academic scholarship and public understanding, to equate Islamic economics almost exclusively with Islamic financial institutions and products. As a consequence, the multidimensional nature of Islamic economics is often overshadowed by its financial manifestations.

The expansion of Islamic finance undeniably demonstrates the practical feasibility of sharia-based institutions operating within contemporary financial systems. The successful establishment of Islamic banks, takaful companies, and Islamic capital market instruments illustrates that financial activities can be structured in accordance with Islamic legal principles while remaining competitive in global markets. However, the literature cautions that this success has come at a conceptual cost. The strong emphasis on financial intermediation has gradually narrowed the intellectual boundaries of Islamic economics, diverting attention away from its broader ethical, social, and developmental concerns.

Asutay (2007) critically describes this shift as a movement away from an “Islamic moral economy” toward a predominantly “Islamic finance” paradigm. Within this transformation, priorities such as operational efficiency, market competitiveness, and profitability increasingly take precedence over normative objectives related to social justice, redistribution, and moral responsibility. This process of over-financialization risks repositioning Islamic economics as little more than a technical variant of conventional finance, distinguished primarily by contractual form rather than substantive ethical orientation. When financial performance becomes the dominant metric of success, the foundational aims of Islamic economics such as reducing inequality, promoting social welfare, and fostering ethical economic behavior are pushed to the margins.

The literature further emphasizes that the institutional dominance of Islamic finance has contributed to the relative neglect of other sectors that were central to the original vision of Islamic economics. Areas such as labor relations, environmental ethics, public finance, consumption behavior, and production ethics remain insufficiently theorized and weakly institutionalized within contemporary Islamic economic practice (Kamla & Rammal, 2013; Haneef & Furqani, 2017). These domains are critical for addressing systemic socio-economic challenges, yet they receive far less scholarly attention and policy support compared to banking and finance. As a result, Islamic economics has struggled to develop a comprehensive framework capable of engaging with the full spectrum of economic life.

This imbalance has significant implications for the transformative potential of Islamic economics. By concentrating institutional resources and intellectual energy on financial instruments, the discipline risks overlooking the structural and cultural dimensions of economic injustice. Issues such as workers' rights, environmental sustainability, ethical consumption, and equitable public spending require normative guidance and institutional innovation that extend beyond the financial sector. The limited engagement with these non-financial dimensions constrains Islamic economics' ability to function as a holistic socio-economic paradigm capable of responding to complex development challenges.

In sum, the literature suggests that while the rise of Islamic finance represents an important achievement, its institutional dominance has simultaneously narrowed the scope and ambition of Islamic economics. Addressing this imbalance requires a deliberate effort to re-center ethical substance, social objectives, and non-financial domains within Islamic economic thought and practice. Without such reorientation, Islamic economics risks remaining confined to the margins of conventional finance, falling short of its original aspiration to offer a comprehensive and morally grounded alternative economic system.

Epistemological Tensions and Methodological Challenges

Another major finding emerging from the literature review is the presence of enduring epistemological tensions within the field of Islamic economics. Despite its explicit normative orientation and ethical aspirations, a significant portion of contemporary Islamic economic analysis continues to rely heavily on the foundational assumptions of neoclassical economics. These include concepts such as rational self-interest, utility maximization, and equilibrium-driven market behavior (Siddiqi, 2008; Zaman, 2014). While the adoption of analytical tools from conventional economics is not inherently problematic, the literature cautions that uncritical reliance on these assumptions may lead to conceptual inconsistencies. Specifically, such assumptions can conflict with Islamic ethical principles that emphasize moral responsibility, social solidarity, and purposeful economic behavior beyond individual gain.

Several scholars argue that this methodological dependence reflects a deeper epistemological challenge rather than a mere technical limitation. Zaman (2012, 2014) asserts that Islamic economics has struggled to establish an independent epistemological foundation, resulting in what he characterizes as "Islamic economics as an imitation of Western economics." According to this critique, Islamic economics often adopts the analytical structure of conventional economic theory and subsequently adds Islamic legal constraints, rather than developing theory from an Islamic worldview as a starting point. This approach, critics argue, weakens the intellectual distinctiveness of the discipline and reduces its capacity to offer a genuinely alternative paradigm.

Hallaq (2015) extends this critique by situating Islamic economics within a broader philosophical tension between modern economic rationality and Islamic moral ontology. From this perspective, the problem is not limited to specific economic models but is rooted in fundamentally different conceptions of human behavior, knowledge, and moral purpose. Modern economic rationality tends to prioritize instrumental reasoning and efficiency, whereas Islamic moral thought emphasizes ethical intentionality, accountability, and the interconnectedness of economic and moral life. The coexistence of these divergent epistemological foundations within Islamic economics creates unresolved tensions that shape both theory and practice.

The literature suggests that these epistemological challenges have tangible implications for methodological choices within the field. The dominance of quantitative modeling, optimization techniques, and financial engineering reflects a broader tendency to prioritize technical sophistication over ethical reflection. As a result, Islamic economics risks becoming methodologically indistinguishable from conventional economics, differing only in terminology or contractual form. This tendency reinforces earlier critiques regarding the over-financialization of the discipline and its limited engagement with substantive ethical and social concerns.

In response to these challenges, several scholars have called for alternative methodological approaches aimed at restoring the normative and epistemological coherence of Islamic economics. Proposed strategies include embracing methodological pluralism, incorporating insights from moral philosophy, and engaging more deeply with political economy perspectives that foreground power relations, institutions, and historical context (Asutay, 2012; Furqani & Haneef, 2015). Such approaches seek to move beyond narrowly technical analyses and to situate economic phenomena within broader ethical, social, and political frameworks consistent with Islamic thought.

However, the literature also indicates that these reform-oriented approaches remain peripheral within mainstream Islamic economics scholarship. Despite repeated calls for epistemological renewal, much of the field continues to prioritize formal modeling, efficiency-driven analysis, and financial innovation. This persistence suggests that the epistemological tensions identified are not easily resolved and that meaningful transformation requires more than incremental methodological adjustments.

Overall, the reviewed studies indicate that the challenges facing Islamic economics are deeply rooted in its epistemological foundations. Addressing these tensions is essential if Islamic economics is to move beyond imitation and develop into a coherent and credible alternative paradigm. Without sustained engagement with these foundational issues, the discipline risks remaining conceptually fragmented, limiting its ability to fulfill its normative aspirations and respond effectively to contemporary socio-economic challenges.

Practical Challenges in Developing Economies

The disconnect between the normative aspirations of Islamic economics and its practical outcomes becomes especially apparent in developing and Muslim-majority countries, where Islamic economic frameworks are frequently promoted as instruments for inclusive and equitable development. Despite several decades of institutional expansion and policy support, empirical evidence indicates that Islamic economic institutions have exerted only a limited influence on key macro-level socio-economic indicators, including poverty reduction, income inequality, and employment generation (Kuran, 2011; Hasan, 2011). This persistent gap raises important questions about the effectiveness of existing institutional arrangements in translating ethical ideals into tangible developmental outcomes.

In the Indonesian context, Islamic banking and finance have demonstrated consistent growth in terms of assets, institutional presence, and regulatory recognition. Nevertheless, their contribution to broader financial inclusion and productive sector development remains relatively modest. Several scholars attribute this limited impact to a range of structural and operational constraints. These include restrictive regulatory environments, a high degree of risk aversion among Islamic financial institutions, and limited innovation in profit-and-loss sharing instruments that are theoretically central to Islamic finance (Ascarya, 2014; Rahman, 2017). In practice, many Islamic banks rely heavily on debt-like financing structures that closely resemble conventional lending, thereby reducing their capacity to support entrepreneurial activity and long-term productive investment. Furthermore, intense competition with well-established conventional financial institutions limits market penetration and reinforces conservative business strategies.

Similar dynamics are observed in other Muslim-majority economies, suggesting that the challenges faced by Indonesia are not unique but rather indicative of broader structural patterns. The literature consistently argues that institutional growth measured by the number of Islamic financial institutions or the size of their assets is insufficient on its own to realize the transformative objectives of Islamic economics. Without corresponding reforms in governance, innovation, and policy integration, institutional expansion risks becoming symbolic rather than substantively impactful.

Beyond the financial sector, social finance instruments such as zakat and waqf are frequently highlighted for their substantial redistributive and developmental potential. However, these instruments are often administered in isolation from mainstream economic planning and national development strategies. The literature points to institutional fragmentation, governance weaknesses, and limited coordination with public policy frameworks as major obstacles to their effectiveness (Kahf, 2003; Mohsin, 2013; Cizakca, 2014). As a result, the capacity of zakat and waqf to contribute meaningfully to poverty alleviation and social investment remains underutilized.

Collectively, these practical challenges underscore the necessity of adopting systemic rather than piecemeal approaches to Islamic economic development. Addressing structural constraints, improving institutional integration, and aligning ethical objectives with policy frameworks are essential steps if Islamic economics is to fulfill its promise as a tool for inclusive and sustainable development in developing economies.

Reframing Islamic Economics: Toward Substantive Ethical Integration

An expanding body of critical scholarship argues that Islamic economics must be fundamentally reframed in order to overcome the limitations created by excessive financialization and formalistic compliance. Rather than centering the discipline almost exclusively on Islamic finance and contractual legality, these scholars advocate for a renewed focus on ethical substance and social objectives as the core of Islamic economic analysis. Central to this reframing is the reassertion of *maqāṣid al-sharīʿah* as a comprehensive analytical framework capable of guiding economic thought, institutional design, and policy formulation. By prioritizing objectives such as justice, human dignity, welfare, and social balance, this approach seeks to restore the moral depth that originally distinguished Islamic economics as a normative discipline (Asutay, 2012; Haneef & Furqani, 2017).

The literature emphasizes that substantive ethical integration requires expanding the scope of Islamic economics beyond the boundaries of finance. While financial institutions remain important, scholars argue that an exclusive focus on banking, capital markets, and financial instruments has obscured broader socio-economic concerns. Issues such as power relations, structural inequality, labor conditions, environmental sustainability, and governance arrangements must be brought back into the analytical core of Islamic economics. Engaging with these dimensions allows the discipline to address the root causes of economic injustice rather than merely mitigating its symptoms. In this sense, reframing Islamic economics entails a shift from a technocratic orientation toward a more socially grounded and context-sensitive mode of analysis.

A key conceptual move proposed in the literature is the understanding of Islamic economics as a dynamic moral-political economy rather than a static or purely legalistic system. This reconceptualization challenges the notion that Islamic economics consists of a fixed set of immutable financial rules. Instead, it highlights the importance of historical context, institutional evolution, and socio-political conditions in shaping economic outcomes. Viewing Islamic economics as a moral-political economy enables scholars and practitioners to adapt ethical principles to contemporary realities without abandoning their normative foundations. Such flexibility is essential in responding to complex global challenges, including globalization, technological change, environmental crises, and shifting patterns of inequality.

Importantly, this reframing does not imply a rejection of existing institutional realities or practical constraints. Rather, the literature calls for a more deliberate effort to align institutions with normative goals through policy innovation, governance reform, and intellectual openness. Islamic economic institutions whether financial, philanthropic, or regulatory are encouraged to move beyond symbolic compliance and to embed ethical objectives directly into their operational logic. This may involve redesigning incentive structures, strengthening accountability mechanisms, and prioritizing social impact alongside financial performance. In this respect, ethical integration is understood not as an abstract ideal but as a concrete institutional challenge.

The literature further underscores that achieving substantive ethical integration requires openness to interdisciplinary engagement. Insights from political economy, moral philosophy, development studies, and institutional economics are seen as valuable resources for enriching Islamic economic analysis. Such engagement can help overcome the epistemological and methodological constraints that have limited the discipline's capacity for self-critique and renewal. By embracing intellectual pluralism, Islamic economics can develop more robust tools for analyzing power dynamics, institutional failures, and social outcomes.

Overall, the reviewed scholarship suggests that reframing Islamic economics toward substantive ethical integration is essential for restoring its relevance and credibility. By re-centering *maqāṣid al-sharīʿah*, broadening its analytical scope, and engaging seriously with real-world institutional challenges, Islamic economics can move closer to fulfilling its original promise as a transformative and morally grounded economic paradigm. Without such a shift, the discipline risks remaining confined to formalistic practices that fall short of its ethical aspirations.

Implications for Theory and Practice

The findings of this review have important implications for both theory and practice. Theoretically, they highlight the need for greater conceptual clarity and epistemological coherence within Islamic economics. Practically, they suggest that achieving the transformative promise of Islamic economics requires moving beyond symbolic differentiation toward substantive ethical integration across economic institutions.

In sum, the results of this conceptual review reveal that Islamic economics stands at a critical juncture. Its continued relevance depends on its ability to reconcile idealism with practical challenges, not by diluting its values, but by rearticulating them in ways that are institutionally meaningful and socially impactful. This discussion sets the stage for the concluding section, which synthesizes these insights and outlines future directions for Islamic economics research and practice.

CONCLUSION

This article set out to revisit Islamic economics through a conceptual–critical lens by examining the persistent tension between its normative ideals and the practical challenges encountered in contemporary economic systems. Drawing on a qualitative conceptual analysis and narrative literature review, the study has demonstrated that Islamic economics, while rich in ethical aspirations and moral vision, continues to face significant difficulties in translating these ideals into substantive institutional and socio-economic outcomes. Rather than questioning the legitimacy of Islamic economics as a discipline, this conclusion synthesizes the main insights of the study and reflects on their implications for theory, policy, and future research.

At the theoretical level, the analysis confirms that Islamic economics is fundamentally a normative discipline grounded in Islamic moral philosophy. Concepts such as justice (ʿadl), welfare (maṣlaḥah), balance (tawāzun), and human well-being (falāḥ) constitute its core objectives and distinguish it from value-neutral claims often associated with conventional economics. However, the findings also reveal that these normative foundations are frequently articulated at a high level of abstraction, with insufficient operational guidance for addressing complex economic realities. This gap has contributed to ambiguity regarding the identity and scope of Islamic economics, leaving it vulnerable to reductionist interpretations that equate the discipline primarily with Islamic finance.

One of the central conclusions of this study is that the institutional dominance of Islamic finance has both enabled and constrained the development of Islamic economics. On the one hand, Islamic financial institutions have demonstrated that sharia-based economic arrangements can function within modern regulatory and market environments. On the other hand, the overwhelming focus on financial products and contractual compliance has narrowed the intellectual and practical horizons of Islamic economics. As a result, broader concerns central to the original vision of Islamic economics such as poverty alleviation, equitable distribution, labor ethics, and environmental responsibility have received comparatively limited attention. This over-financialization risks undermining the transformative promise of Islamic economics by prioritizing market competitiveness over social justice.

The discussion further underscores that the prevalent emphasis on formal sharia compliance, often characterized as form over substance, represents a critical challenge to the credibility of Islamic economics. When Islamic economic practices are perceived as merely replicating conventional systems through legalistic modifications, the ethical distinctiveness of the discipline is called into question. From the perspective of maqāṣid al-sharīʿah, such practices fall short of fulfilling the higher objectives of Islamic law, which emphasize social welfare, fairness, and the prevention of harm. The persistence of this compliance-oriented approach suggests that institutional success alone is insufficient if it is not accompanied by substantive ethical integration.

Epistemologically, the study concludes that Islamic economics remains entangled in unresolved tensions with neoclassical economic paradigms. While engagement with mainstream economic theory is neither avoidable nor undesirable, uncritical adoption of its assumptions has limited the capacity of Islamic economics to articulate an independent and coherent worldview. The continued reliance on notions of rational self-interest and utility maximization, without sufficient ethical reconfiguration, has contributed to internal inconsistencies within Islamic economic thought. Addressing this challenge requires greater methodological reflexivity, openness to interdisciplinary approaches, and a willingness to critically reassess inherited analytical frameworks.

From a practical standpoint, the findings suggest that the limited socio-economic impact of Islamic economics in many developing and Muslim-majority countries is not merely a matter of scale or market penetration. Rather, it reflects deeper structural and governance issues, including fragmented institutional arrangements, limited integration of social finance instruments, and weak alignment between Islamic economic initiatives and national development strategies. Instruments such as zakat and waqf possess considerable potential for redistribution and social investment, yet their effectiveness remains constrained by managerial, regulatory, and policy-related challenges. Without systemic integration, these instruments are unlikely to achieve the transformative outcomes envisioned in Islamic economic theory.

The overarching implication of this study is that the future relevance of Islamic economics depends on its ability to move beyond symbolic differentiation and toward substantive ethical integration. Revisiting Islamic economics, as argued throughout this article, is not an exercise in rejecting existing institutions or romanticizing idealized models of the past. Rather, it is a critical endeavor aimed at realigning contemporary practices with foundational ethical objectives in a manner that is contextually grounded and institutionally feasible. Such a reorientation requires a shift in emphasis from legalistic compliance to ethical purpose, from financialization to holistic socio-economic analysis, and from intellectual defensiveness to critical self-reflection.

In terms of policy implications, this study suggests that policymakers and practitioners should adopt a more integrated approach to Islamic economic development. This includes strengthening linkages between Islamic finance and the real sector, embedding social finance instruments within broader development frameworks, and designing regulatory environments that incentivize risk-sharing and social impact rather than mere formal compliance. For scholars, the findings highlight the need to expand research agendas beyond technical financial issues toward questions of governance, power, inequality, and ethical accountability.

Finally, this study opens several avenues for future research. Empirical studies are needed to assess the actual socio-economic impact of Islamic economic institutions across different contexts. Comparative analyses between countries may shed light on institutional designs that better align ideals with outcomes. Moreover, interdisciplinary research drawing on moral philosophy, political economy, and development studies can enrich the theoretical foundations of Islamic economics and enhance its relevance in addressing contemporary global challenges.

In conclusion, Islamic economics stands at a critical juncture. Its normative ideals remain compelling, yet their realization requires sustained intellectual, institutional, and ethical commitment. By revisiting Islamic economics through a critical conceptual lens, this article contributes to ongoing efforts to strengthen the discipline's coherence and credibility. The challenge ahead is not merely to preserve the identity of Islamic economics, but to ensure that it fulfills its promise as a meaningful and transformative approach to economic life in an increasingly complex and unequal world.

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